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March 27, 2012

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

This memorandum provides information on Governor Brown's revised November Ballot Initiative, The Schools and Local Public Safety Protection Act of 2012.

Governor's November 2012 Ballot Initiative

On March 14, 2012, Governor Brown submitted a revised version of his proposed November 2012 Ballot Initiative, The Schools and Local Public Safety Protection Act of 2012, to the Attorney General for title and summary. The revised measure is a result of an agreement between the Governor and the California Federation of Teachers, which has been circulating a ballot initiative that would raise taxes to fund education, to combine aspects of the respective ballot measures and proceed with one initiative effort.

The original version of the Governor's Initiative, released on December 5, 2011, would amend the State Constitution to permanently dedicate revenues to local governments to pay for the 2011 Public Safety Realignment and provide protections for future unfunded costs; institute a half-cent temporary increase in the State Sales Tax rate; and temporarily increase the Personal Income Tax rate for higher income earners to fund K-14 education. Estimates of the revenue increases that would be generated by the Governor's original measure, range from \$4.8 billion to \$6.9 billion in FY 2012-13;

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\$5.5 billion to \$6.9 billion from FY 2013-14 to FY 2015-16; and \$3.1 billion to \$3.4 billion in FY 2016-17.

On December 6, 2011, a coalition of educators and unions including the California Federation of Teachers submitted their own proposed initiative, The Millionaires Tax to Restore Funding for Education and Essential Services Act of 2012, which would also increase the Personal Income Tax on higher income earners to fund education. Specifically, the measure would permanently increase the Personal Income Tax rate for those earning \$1.0 million or more by 3 percent, and for those earning \$2.0 million or more by 5 percent. There are no provisions in the measure to raise the State Sales Tax rate. The increased tax revenue, estimated to be between \$6.0 billion to \$9.5 billion per year, would be allocated to fund K-12 and higher education, children and senior services, public safety, and road repair.

In an effort to reduce the number of November 2012 ballot initiatives that seek to raise taxes to fund education, the Governor and the California Federation of Teachers announced an agreement on March 14, 2012 to combine aspects of their respective measures and jointly proceed with the effort to gather signatures and qualify a joint initiative for the November 2012 ballot.

Revised Initiative

The revised measure retains the same structure as the Governor's original initiative, including: 1) funds are dedicated to education; 2) helps balance the State Budget; and 3) contains constitutional protections for counties to administer the 2011 Public Safety Realignment. Specifically, the revised measure would: 1) continuously appropriate the specified State Sales Tax and Vehicle License Fee revenue allocations to counties to fund the realigned programs; 2) protect counties from future unfunded increased costs; and 3) require that the State share in any increased costs associated with federally-mandated programmatic changes.

The principal changes in the revised initiative pertain to the tax increases to fund K-14 education and would amend the original measure to: 1) lower the increase in the State Sales Tax rate from half-cent to a quarter-cent; 2) raise the increase of the Personal Income Tax rate for single filers with an income of \$300,000 or joint filers with incomes of \$600,000 or higher; and 3) lengthen the duration of the Personal Income Tax rate increase from five years to seven years. The revenue generated from the tax increases would continue to fund K-14 education.

The side-by-side comparison below outlines the key differences between the two measures.

		Governor's Original Measure	Revised Measure
Sales Tax Provisions	Temporary increase in the State Sales Tax Rate	Increase of half a cent	Increase of quarter a cent
	Duration of Tax Increase	Four years beginning January 1, 2013; Expires January 1, 2017	Four years beginning January 1, 2013; Expires January 1, 2017
Personal Income Tax Provisions	Increase in rate for the following single (joint) filers:		
	Income of \$250,000 (\$500,000)	1.0%	1.0%
	Income of \$300,000 (\$600,000)	1.5%	2.0%
	Income of \$500,00 (\$1,000,000)	2.0%	3.0%
	Duration of Personal Income Tax Increase	5 years beginning 2012 tax year; Expires end of 2016 tax year	7 years beginning 2012 tax year; Expires end of 2018 tax year

Legislative Analyst's Office Report

On March 16, 2012, the Legislative Analyst's Office (LAO) released its analysis of the Governor's revised initiative and indicates that the measure would continue to reduce the financial insecurity and risk for local governments to operate the 2011 Public Safety Realignment and would constrain the State from changing or imposing new requirements on the realigned programs without providing commensurate funding.

Similar to its analysis of the Governor's original measure, the LAO notes that potential volatility in the Personal Income Tax revenues from higher income earners makes it difficult to estimate the revenue gains from the proposed temporary tax increase. Nonetheless, the LAO report estimates that the annual increase in State revenues generated from the temporary taxes could be from \$6.8 billion to \$9.0 billion in FY 2012-13 and from \$5.4 billion to \$7.6 billion on average each of the following five fiscal years.

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Status

The Governor's revised initiative was given official title and summary by the Attorney General on March 16, 2012, and the deadline to gather the required signatures is August 13, 2012. As a result of the shortened timeline, the Governor and the California Federation of Teachers are continuing to gather signatures on their original initiatives in the event the revised measure does not qualify for the November ballot.

We plan to provide your Board a complete analysis of all the ballot initiatives that qualify for the June 5, 2012 and November 6, 2012 elections.

We will continue to keep you advised.

WTF:RA
MR:KA:sb

c: All Department Heads
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